



Department of Transportation Local Managed Contracts Audit

Audit Period: January through June 2016

Results Summary:

Objective	Conclusion*
Awarding Process	Well-Controlled with Improvement Needed
Contract Management and Payment Processes	Well-Controlled with Improvement Needed
Closeout Process	Well-Controlled with Improvement Needed

* Refer to Appendix A for classification of audit objective conclusions.

Report number: 2018-DOT-33

Issuance date: April 19, 2018[^]

[^] Although audit fieldwork for this engagement was completed in January 2017, this audit report was not able to be issued until the date noted due to a State Audit Committee quorum issue.



Executive Summary

Background

The Ohio Department of Transportation (ODOT) is responsible for planning, building, and maintaining the state's transportation system. Most of ODOT's resources are devoted to the state's system of highways and roads, but the Department also allocates funds to oversee its responsibilities in the aviation, public transit, and rail modes of transportation. The vast majority of ODOT's total budget is derived from the federal Highway Trust Fund, the state motor fuel tax, and bond revenue.

Currently there are more local transportation projects (repairing sidewalks, paving turn lanes, bridge maintenance etc.) than there is federal funding to finance them. Most of this work occurs at the local government level with the authority and approval of the federal government, via the state government. The local let process requires ODOT, the Federal Highway Administration (FHWA) and local government entities to work together to ensure the funding is distributed equitably and the projects are prioritized fairly.

Local Program staff at ODOT's central office and twelve district offices oversee this process and follow a list of procedures and guidelines that initiate, track, and record the local let process. The FHWA allows ODOT to delegate project activities on Federal-aid projects to Local Public Agencies (LPA), but ODOT is ultimately responsible, and must assure local compliance with all federal and state laws, regulation and policies. LPA participation is at ODOT's discretion. In order to uphold the integrity of ODOT's local let program, and as evidence of its capability to administer a local let construction project, LPAs must possess certain criteria. These criteria apply to more than just the specific project development disciplines associated with design and construction, but also general aspects of public business, fiscal accountability, and other applicable requirements associated with federal and state funding. ODOT will determine if an LPA possesses qualified staff, experience and management oversight to successfully administer a project from preliminary development through construction.

To gain better insight into the LPA contract oversight process, OIA met with two district offices and sent a questionnaire to the remaining ten districts. Summary responses by each district were provided to management in a separate communication.

During the audit, OIA identified opportunities for ODOT to strengthen internal controls and improve business operations. OIA conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank ODOT staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.



Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the local managed contract process. This work was completed August 2016 through January 2017. The scope of this audit included ODOT (including district offices) oversight of local let contracts, specifically those contracts funded by federal highway funding. The detailed audit objectives included:

- Evaluate the design and effectiveness of the agency's monitoring controls over the local let contract awarding process.
- Evaluate the design and effectiveness of the agency's monitoring controls over the local let contract management and payment processes.
- Evaluate the design and effectiveness of the agency's monitoring controls over the local let contract close out process.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. There were no high or moderate observations for this engagement. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee